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C O N F I D E N T I A L SECTION 01 OF 04 ASHGABAT 000734

SIPDIS

STATE FOR SCA/CEN, EUR/ERA, EUR/CARC, EEB
PLEASE PASS TO USTDA DAN STEIN
USEU FOR AMBASSADOR GRAY
ENERGY FOR EKIMOFF/THOMPSON
COMMERCE FOR HUEPER

E.O. 12958: DECL: 06/05/2018

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SUBJECT: TURKMENISTAN: SPECIAL ENVOY GRAY HEARS
TURKMEN-AZERI HYDROCARBON COOPERATION NEEDS NURTURING

REF: ASHGABAT 0722

Classified By: CDA RICHARD E. HOAGLAND: 1.4 (B), (D).

11. (C) SUMMARY: Both Deputy Prime Minister for Oil and Gas Tagiyev and Hydrocarbon State Agency Director Muradov told U.S. Special Envoy for Eurasian Energy C. Boyden Gray on June 5 Turkmenistan welcomes investment by U.S. companies and promotes multiple export routes, including Westward across the Caspian. Both Tagiyev and Muradov professed ignorance of any Azeri/SOCAR desire to cooperate commercially with Turkmenistan for a production pipeline that would allow early gas from Turkmenistan to flow Westward, but we suspect there is indeed more talk than they let on. However, we know there is not yet full trust between the parties, and of equal importance there is great pressure from Russia to prevent any trans-Caspian linkage. The resolution of the disputed mid-Caspian fields is a sensitive political question involving face the two presidents will eventually have to settle. In the meantime, we should do everything appropriate and possible to facilitate a Turkmen-Azeri commercial dialogue. END SUMMARY.

12. (C) Deputy Prime Minister for Oil and Gas Tachberdi Tagiyev and Director for the State Agency for the Management of Hydrocarbon Resources Bayrammurad Muradov met June 5 with U.S. Special Envoy for Eurasian Energy Ambassador C. Boyden Gray and Coordinator for Eurasian Energy Diplomacy Ambassador Steven Mann to discuss Turkmenistan's hydrocarbon development and export plans, and how the United States could help. Tagiyev said that Western companies have much to offer Turkmenistan in terms of technology and expertise. He noted the frequent discussions the government has had with Ambassador Mann in the past on the issue of Western company participation and on pipelines, and that Turkmenistan indeed promotes greater diversification of investors and export

routes. He added the government has also become more focused on expanding educational opportunities for oil and gas personnel, sending more students abroad for training and education.

READY TO WORK WITH WESTERN FIRMS AND OTHERS

13. (C) Tagiyev said Turkmenistan is ready to work with Chevron, British Petroleum (BP), and other Western firms, but restricts extracting hydrocarbons onshore to only Turkmen companies (with a few pre-existing exceptions). Foreign companies are welcome to work offshore and to propose new PSAs for Caspian blocks. Foreign service companies, however, are welcome to work only in support of Turkmen onshore projects, especially in seismology, recovery enhancement, gas processing, and petrochemicals.

14. (C) In January 2009, Turkmen gas will be sold to all customers at the European market price, Tagiyev said. The Turkmen government is well aware that the European market price for natural gas has reached as high as \$450 per thousand cubic meters (tcm). Currently, Turkmenistan is selling its gas for \$150 per tcm. The government remains interested in the profit potential of liquefied petroleum gas (LPG), fertilizers, and other petrochemicals, Tagiyev said, and would welcome foreign investment.

15. (C) Gray suggested that Turkmenistan reconsider its policy that only domestic companies develop hydrocarbon fields onshore. Would it help, he asked, if companies took

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on more of the legal risk, and also shared more of the benefits? Tagiyev dismissed this possibility by noting Turkmenistan has 130 years of experience extracting oil and gas and can handle onshore exploitation by itself. (COMMENT: While this is indeed current policy, we continue to believe there is internal debate on this issue. END COMMENT.)

16. (C) Tagiyev said that when Turkmenistan sold its gas for \$45 per tcm, increasing production was not a necessity. With an increasing number of pipeline routes to facilitate the country's export agreements, the government has the power to raise prices and increase production whenever it wants. Gray agreed that higher prices were good, and suggested Turkmenistan continues to have an opportunity to export natural gas to the west. Tagiyev reiterated that Turkmenistan sells its gas at the border, and that this policy protects it from "political controversy." Contracts signed with Russia, Iran and China have not caused problems for Turkmenistan.

"THE AZERIS DIDN'T SAY IT TO US!"

17. (C) Special Envoy Gray noted that when he had met on June 2 in Baku with officials from Azerbaijan's state oil company, SOCAR, they had indicated interest in buying Turkmenistan's gas at Turkmenistan's maritime border. Tagiyev responded he had heard nothing like this when he had been with President Berdimuhamedov in Baku in May. Gray suggested that perhaps the United States could foster further conversation between SOCAR and the Turkmen government.

STABILITY OF WESTERN CONTRACTS VS. RUSSIAN REALITY

18. (C) Mann noted that when a deal is signed with a Western company, the contract is air-tight, and the rule of law helps assure that participants stick to the contract. However, when a contract is signed with a Russian company, the contract is only as solid as the will and intention of the Russian government. Current Russian legal pressure against TK-BNP is an example of that reality. Tagiyev dismissively said that was an internal Russian issue. Mann underscored that this was precisely the problem: because the Russian government is indivisible from the Russian energy industry, all legal disputes are doomed to become "internal issues."

¶9. (C) Tagiyev shrugged that Turkmenistan has experienced no such problems in the past with its long-term contracts with Russia, although sometimes pricing disputes have arisen and needed to be resolved. Nonetheless, diversification of export is still a priority, and multiple pipelines are still under discussion. He said the Chinese gas pipeline project is to be completed in 2009, and the contract calls for delivery of 30 bcm per year to China, although initial volumes will be less. He reemphasized Turkmenistan plans to sell its gas in 2009 to all customers at European market prices, including to the Chinese.

¶10. (C) Special Envoy Gray raised the possibility of President Berdimuhamedov making another visit to the United States for the UN General Assembly in September and suggested this would be an opportunity for the president to travel to other U.S. cities to meet with senior executives from energy companies. Tagiyev was receptive and agreed to work with the Foreign Ministry and the Embassy to develop a possible itinerary.

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OIL AND GAS CONFERENCES: "MINI-TIOGES" AREN'T AS SUCCESSFUL

¶11. (C) Tagiyev turned to Ashgabat's Oil, Oil Extraction, and Petrochemical Exhibition and International Conference set to open on June 6. Sixty-seven companies registered to participate, and 54 of those would be exhibitors at the exhibition. The fourth and final conference of the year in a few months would focus on petro-geology. He said the November 2007 TIOGE conference had been considered a great success, and a decision had been made to hold four mini-conferences in the course of 2008. He suggested, however, that the mini-conferences had been disappointing, and that fewer conferences would be organized next year. (COMMENT: The Russian event planner contracted for the four "mini-TIOGES" has publicized them neither broadly nor in a timely manner. The majority of the exhibitors at the current conference are Russian, Chinese, and Turkish. END COMMENT.)

STATE OF PLAY WITH WESTERN COMPANIES

¶12. (C) Special Envoy Gray and Coordinator Mann had an immediate follow-on meeting with State Agency Director Muradov. He updated in very general terms the state of play with various U.S. companies. ConocoPhillips/Lukoil negotiations continue for off-shore blocks, and he still hopes to reach a mutually beneficial agreement. He noted companies work hard to make money for their shareholders, but Turkmenistan also must try to defend its interests. The best course is to create transparent agreements, which do not need to be reopened in a year, unlike what has happened to some foreign investors in Kazakhstan. Muradov said BP has submitted its proposal for deep gas, and in a few days, the next round of negotiations will take place. He announced Turkmenistan will sign a confidentiality agreement with Marathon the week of June 9 and will start concrete discussions with them, too. He noted that Chevron has submitted a specific proposal to work subsalt onshore.

PURSUING COMMERCIAL POSSIBILITIES WITH THE AZERIS

¶13. (C) Mann said Turkmenistan would reap long-term benefits by having a major company like Chevron work on-shore with subsalt gas. He said there are also immediate practical possibilities in another area, because SOCAR officials in Baku are ready to purchase existing, off-shore Turkmenistan gas and transport it through a connector pipeline they would build, if not finance. The task for all of us over the next 2-3 months, said Mann, is to see how this could be turned into a specific proposal.

¶14. (C) Muradov professed surprise and said it appears the Azeris are saying one thing to the United States and

something different to Turkmenistan. He said he would not go into detail about discussions with the Azeris since they were not present, but noted if a customer wants something from Turkmenistan, they should make a direct proposal. Muradov said Turkmenistan openly invited the Azeris to participate, like any other customer, but the reply was simply they "would think about it."

¶15. (C) Referring to President Berdimuhamedov's statement that the issue of delimitation should not get in the way of commercial possibilities, the Charge said both sides should see what possibilities exist apart from the disputed Serdar/Kyapaz field. If there are existing fields producing gas clearly in Turkmen territory, those could be part of a

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joint commercial development. Alluding to the importance of settling the Serdar/Kyapaz dispute with Azerbaijan, Muradov pointed out Azerbaijan is already pumping oil from Osman-Omar/ACG, another disputed field Turkmenistan has claimed. Claiming to want mutually beneficial cooperation, Muradov said that postponing the resolution of the disputed fields directly benefits Gazprom and Iran.

¶16. (C) Special Envoy Gray said Turkmen gas and Azeri gas transited west to Europe would make a good package. He offered that the EU would be interested in the gas, but probably does not know how to put together the deal. The United States would be willing to facilitate this effort. The United States cannot arbitrate the disagreement between Turkmenistan and Azerbaijan over the disputed fields, but can offer advice and provide Turkmenistan with recommendations for legal consultants. Gray said an energy conference in Brussels in September would provide an opportunity for discussion for the Europeans and the countries in this region.

¶17. (C) COMMENT: While Tagiyev said absolutely nothing new, he was the most open and talkative we have ever seen him. Both Tagiyev and Muradov professed ignorance of any Azeri/SOCAR desire to cooperate commercially with Turkmenistan for a production pipeline that would allow early gas from Turkmenistan to flow Westward, but we suspect there is indeed more talk than they let on. However, we know there is not yet full trust between the parties, and, of equal importance, there is great pressure from Russia to prevent any trans-Caspian linkage. The resolution of the disputed mid-Caspian fields is a sensitive political question involving face the two presidents will eventually have to settle. In the meantime, we should do everything appropriate and possible to facilitate a Turkmen-Azeri commercial dialogue. END COMMENT.

¶18. (U) Special Envoy Gray and Coordinator Mann did not have an opportunity to clear this cable.
HOAGLAND